



Department
for Work &
Pensions



European Union

European
Social Fund

Responsibilities of ESF beneficiaries in the prevention and detection of fraud in ESF projects

This guidance note sets out the responsibilities of ESF beneficiaries in the prevention, detection, and investigation of fraud or suspect fraud and related activities.

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1. Background

- 1.1. The term 'fraud' is commonly used to describe a wide range of misconducts including theft, corruption, embezzlement, bribery, forgery, misrepresentation, collusion, money laundering and concealment of material facts. It often involves the use of deception to make a personal gain for oneself, a connected person or a third party, or a loss for another – intention is the key element that distinguishes fraud from irregularity.
- 1.2. Cases of suspected fraud in the previous European Social Fund (ESF) programme (2007-13) were limited in number but those that occurred came to light through a 'whistleblower' in the ESF project or a related organisation raising concerns with the Managing Authority or Intermediate Body. Typically, investigation of allegations of fraud found that claims for ESF for outcomes could not always be substantiated.
- 1.3. Fraud does not just have a potential financial impact, but it can cause damage to the reputation of an organisation responsible for managing funds effectively and efficiently.

2. Preventing fraud - responsibility of beneficiaries

- 2.1. All ESF beneficiaries (co-financed and non-co-financed projects) must be committed to maintaining high legal, ethical and moral standards, to adhere to the principles of integrity, objectivity and honesty and actively oppose fraud and corruption in their ESF projects.
- 2.2 ESF beneficiaries will be expected to:
 - promote a culture within their project(s) that deters fraudulent activity;
 - facilitate the prevention and detection of fraud;
 - report to the MA (Managing Authority) at the earliest opportunity any fraud or suspected fraud they identify in their project(s);
 - co-operate with the MA and DWP/Treasury in the investigation of fraud and related offences.
- 2.3 These responsibilities can best be met if the ESF beneficiary sets out a statement on how they will deal with suspected fraud in their organisation and if appropriate, sub-contractors. Such a statement should cover:

- an explanation of what fraud means within the project/organisation and a commitment to putting in place safeguards to deter and prevent fraud;
- the key responsibilities of senior staff in preventing and detecting fraud and in co-operating with any investigations;
- How the organisation will respond to the risk of internal and external fraud;
- How individuals can report concerns and suspicions of fraud including any arrangements for whistleblowers to raise concerns.

2.4 The fraud statement should be available for review and discussion when MA contract or verification managers attend for review or On-The Spot visits.

3. Good practice in the prevention of fraud

3.1 Finance

3. The following actions represent good practice that will help to reduce the risk of fraud arising:

- There is a segregation of duties for financial processes. No individual should have sole responsibility for any single transaction.
- Basic records of all income and expenditure are kept, as well as receipts, invoices and supporting documents.
- Financial controls are not being overridden, by-passed or ignored.
- Bank statements and other accounts are regularly reconciled, with spot checks carried out on books and records.
- The 'tone at the top' makes a difference and it is important that a culture of control is embedded.
- A review of financial controls is carried out annually.

3.2 Whistleblowing policy

3.2.1 Whistleblowing policy covers issues that are broader than fraud related incidents – it should set out the procedures for when there are concerns about any type of crime. It includes:

- Confirmation that the organisation actively encourages its staff to report concerns and suspicions about fraud, and that it will take them seriously.

- A statement on confidentiality/anonymity and support.
- Details of how to report concerns and advice for staff on when to speak to a line manager or other senior staff.

3.3 Spotting the warning signs

3.3.1 Most fraud can be caught by internal controls or audit processes so making regular checks on accounts and records will help to identify warning signs:

- are there unusual discrepancies in accounting records and unexplained items on reconciliations?
- have any documents or account books gone missing?
- are there high numbers of cancelled cheques?
- are common names unexpectedly appearing as payees?
- are there any duplicated payments or cheques?
- do transactions take place at unusual times with irregular frequency, unusual or 'round' amounts or to unknown recipients?
- are suppliers regularly submitting electronic invoices in non-PDF format that can be altered?
- are payments made to individuals or companies with family or business connections to a trustee, and perhaps authorised by that trustee? This might indicate collusion.
- missing stock may indicate theft rather than fraud but should also be guarded against.

4. Action on suspected fraud

4.1 Instances of suspected fraud detected by the ESF beneficiary relating to ESF and match activity should be notified to the MA immediately.

4.2 The Government Internal Audit Agency (Counter Fraud & Investigations team (GIAA (CF&I))) is responsible for investigating allegations of fraud referred to them by the MA. The annex to this note sets out the detailed procedure for dealing with suspected fraud allegations.

4.3 As the ESF programme in England in 2014-2020 will be delivered through two frameworks; Co-financing organisations (CFOs) and non CFOs; the GIAA (CF&I) team will deal directly with fraud allegations that arise from non CFO projects and DWP CFOs. Other CFOs (Skills Funding Agency, Big Lottery and the National

Offenders Management Service) have their own teams responsible for investigating suspected fraud and they will lead on any fraud cases in the first instance, liaising with GIAA (CF&I) if appropriate. ESFD recognises that each CFO will have a different process for handling suspected fraud cases.

4.4 Where an allegation of fraud is made, an estimated irregularity will be raised with the MA at the point when investigators or the CFO conclude that there are sufficient grounds to justify further investigation.

4.5 Once investigation action has been completed and a conclusion reached a revised irregularity will be raised with the MA to notify whether fraudulent activity was established and if so to provide a quantified amount of the funding involved. The ESF beneficiary will be kept informed of the progress of the investigation and will be informed of any action to be taken including referral to the police and any irregular expenditure that they will be required to be re-paid

4.6 Where the allegation has been found not proven then a letter outlining the circumstances will be sent to the MA who will inform the beneficiary.

4.7 The investigations will not be concluded if police and/or court action is outstanding and until any such activity is finished the case will continue to be regarded as unconcluded.

5. MA and CA responsibilities

5.1 The Managing Authority and Certifying Authority are responsible for the day-to-day management of fraud risks and particularly for:

- ensuring that an adequate system of internal control exists within ESF operations;
- preventing and detecting fraud;
- ensuring due diligence and implementing precautionary actions in case of suspicion of fraud;
- taking corrective measures, including any administrative penalties, as relevant.

5.2 Where ESF beneficiaries have issues or concerns on any aspect of suspected fraud they should contact their ESF contract manager in the first instance.

ESF MANAGING AUTHORITY

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Procedure for dealing with allegations of fraud

Where GIAA (CF&I) receive an allegation from an outside body or other intelligence source suggesting irregularity, they will initially liaise with the Managing Authority (MA) in ESFD.

GIAA (CF&I) will undertake preliminary enquiries approaching, where appropriate, Commercial Directorate – Employment (CDE) in the case of DWP CFO allegations and the MA to establish if there is sufficient evidence to justify accepting the case for further enquiries. GIAA (CF&I) will usually inform the MA of its decision within 5 working days of receipt of the referral. Where allegations have been made in relation to other CFO activity GIAA (CF&I) will, if appropriate, liaise with the relevant contact.

Where the MA/Intermediate Body has been approached by a Police Authority in conjunction with a criminal investigation the MA will forward details to GIAA (CF&I). GIAA (CF&I) will then contact the Police and become the main contact point with the Police.

If GIAA (CF&I) consider that the referral does not warrant their involvement they will contact the MA in writing giving the reasons for non-acceptance and recommending any further action by the MA. In all such cases, the MA may re-refer the case if further information comes to light.

Action by GIAA (CF&I) on acceptance of a referral from ESFD

If GIAA (CF&I) accept the matter for further enquiries the investigation will be conducted in line with best practice and the professional standards laid down in the GIAA (CF&I) Guidance.

As per standard GIAA (CF&I) operational practice in Contracted Employment Programme investigations, for DWP fraud cases the investigator will approach (CDE) who will identify the relevant contract manager for liaison purposes. The investigator will copy the MA into relevant communications.

From this stage GIAA (CF&I) will handle all correspondence between the informant, the ESF beneficiary and Government and non-Governmental funding bodies. GIAA (CF&I) will require the MA to provide details of any dossiers and information on the E-Claims IT system relevant to the ESF beneficiary, together with those of any other ESF beneficiary associated with the organisation under investigation.

If at any point during GIAA (CF&I)'s enquiries there is evidence, or a reasonable suspicion held that fraudulent activity has taken place, GIAA (CF&I) will immediately

write to the MA. It is the CA who is responsible for notifying The European Anti-fraud Office (commonly known as OLAF, from the French: Office européen de lutte antifraude), of instances of suspected fraud.

GIAA (CF&I) will consider if any referral to the Police is required and inform the MA as a matter of courtesy. The ultimate authority to refer to the Police rests with GIAA (CF&I).

GIAA (CF&I) will concentrate on investigating the specific allegations made. However if in the course of the investigation GIAA (CF&I) discovers non compliance with ESF rules and regulations and or that documentation is missing, or is deemed ineligible, it will report these to the relevant Contract or performance Manager (for DWP cases) and to the MA for consideration/action.

At the end of the investigation, GIAA (CF&I) will produce a report for the MA and additionally CDE (for DWP cases). The report will detail the findings of the investigation, determine the amount of loss arising, and recommend further action to be taken by the MA if appropriate. It will also, if appropriate, recommend any necessary improvement in control to prevent any similar occurrence in the future. GIAA (CF&I) will not attempt to determine questions of policy relating to ESF Regulations; GIAA (CF&I) will expect the MA to decide upon these issues based on information provided by GIAA (CF&I) and/or by follow-up work by the MA.

CDE will pursue recovery of loss where it is from the DWP provider. The other CFOs will be responsible for recovery action for their own cases. The MA will lead in pursuing recovery action for non-CFO projects.

Action by Managing Authority on receipt of GIAA (CF&I)'s report

The MA will issue GIAA (CF&I)'s Investigation Report to the CA and any relevant Intermediate Body (as appropriate) within 5 working days and monitor on a quarterly basis progress towards clearing outstanding issues.